

Real Estate Search Process and Recommendation

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Agenda

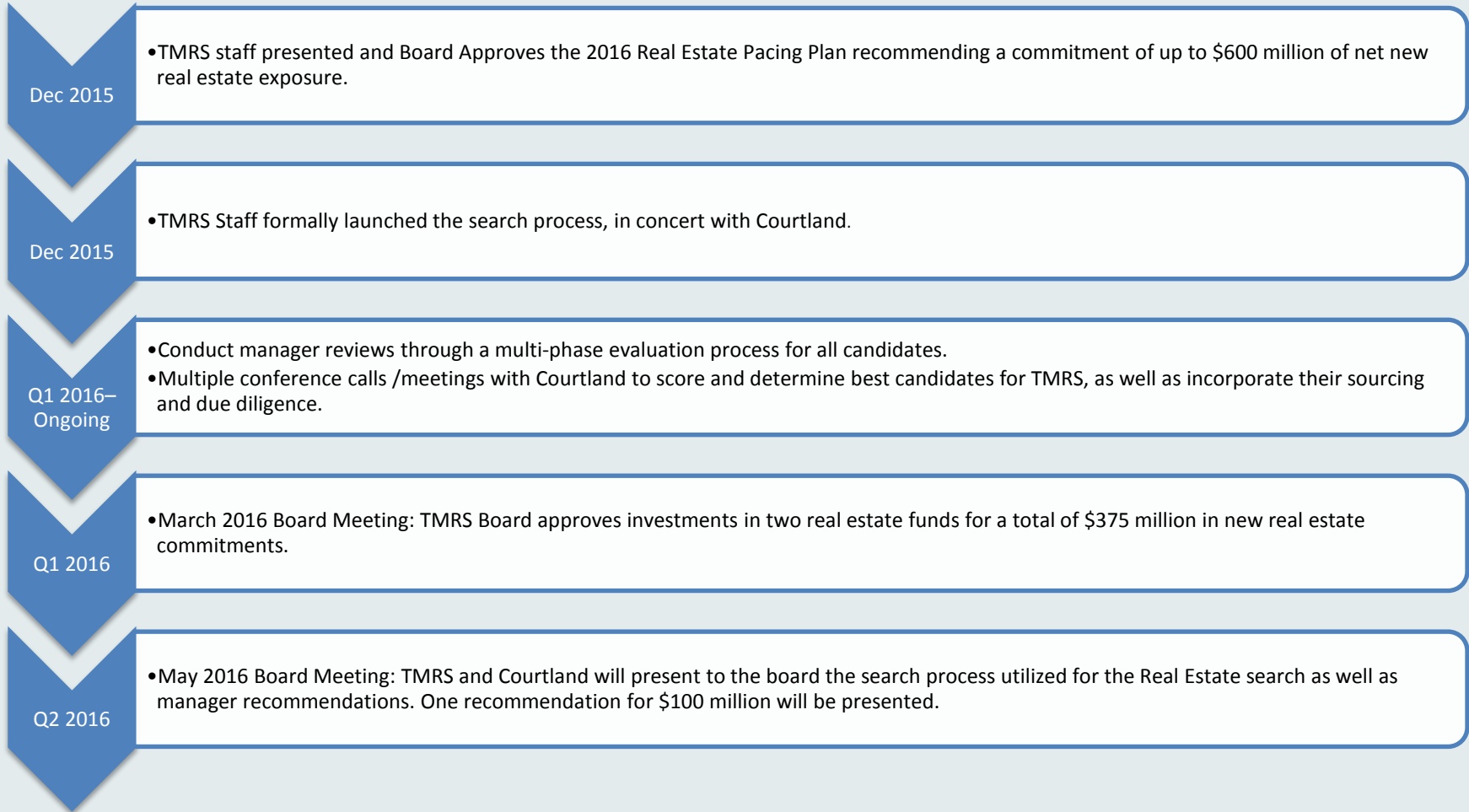
- I. Real Estate Search Process Timeline & Allocation Objectives
- II. Manager Search Process
- III. Portfolio Construction
- IV. Manager Selection & Recommendation*
- V. Requested Board Action

*Names used in this presentation are a shortened version that is used for ease of communication purposes throughout this document. The formal recommendations to the Board on the last page of this presentation reflect the full legal name of the investment.

I. Real Estate Search Process Timeline & Allocation Objectives



Real Estate Search Process Timeline



Real Estate Search Process Objectives

- **Portfolio Diversification**

- Work towards an appropriately balanced portfolio with an efficient number of partnerships for TMRS oversight purposes.
- Build a portfolio with suitable geographic and economic concentrations to achieve decreased volatility in returns while providing access to alpha producing opportunities where accretive and cognizant of risk.

- **Portfolio Partnerships**

- Identify best in class managers currently in fundraising capable of investing in uncertain market with strong alignment of interests.

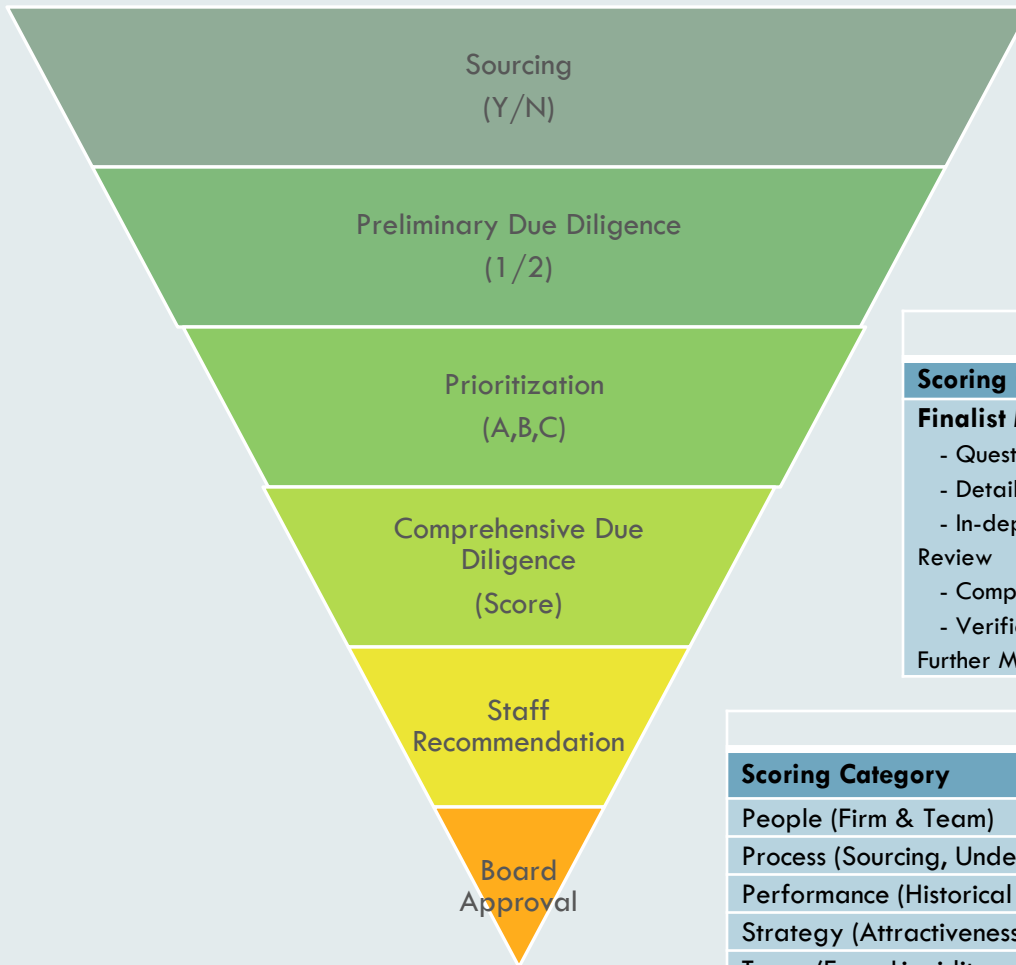
- **Targeted Commitment Level**

- The targeted Real Estate Pacing Plan for 2016 is up to \$600 million. However, pacing plan considerations may lower total recommendations for the year.

II. Manager Search Process



Manager Search Process



Manager Screen & Universe Analysis Scoring	
Scoring Category	Score / Outcome
Manager Screen - Is vehicle consistent w/ TMRS' objectives?	Yes - Take Meeting; No - Don't Take Meeting
Manager Analysis - Does vehicle have adequate capacity and timeline? - PPPST* Preliminary Review	1 - Advance; 2 - Stop Research

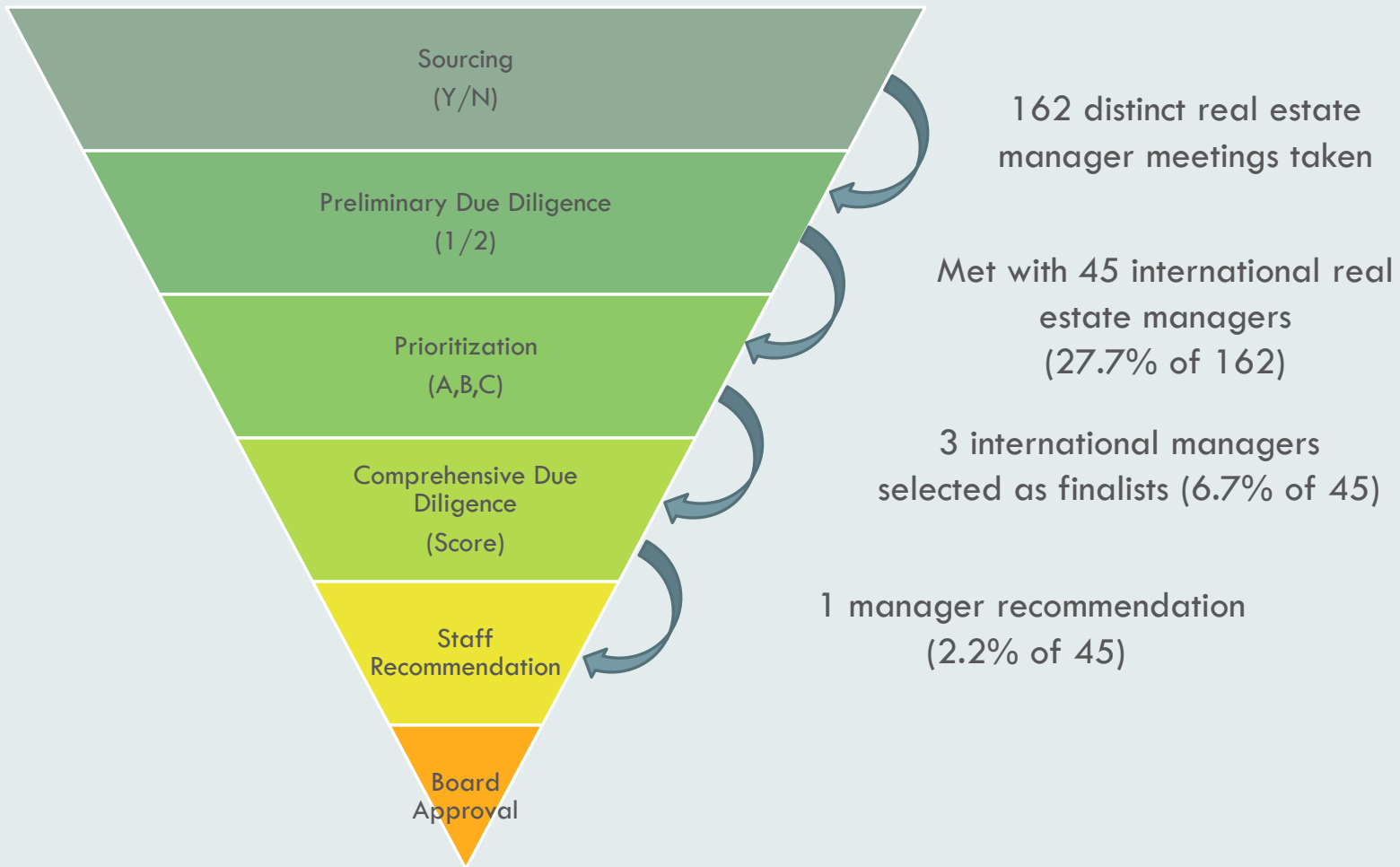
Semi-Finalist Scoring Matrix	
Scoring Category	Score
Finalist Manager Review - Questionnaire Review - Detailed PPPST* Review - In-depth Manager Qualifications Review - Compliance with TMRS IPS - Verification of Research, References, Further Market Research	A - Prioritize for Final Due Diligence B - Perform More Research C - Stop Research / Manager not Selected

Final Due Diligence Scoring Matrix	
Scoring Category	Possible Points
People (Firm & Team)	0 - 40 points
Process (Sourcing, Underwriting and Managing)	0 - 40 points
Performance (Historical / Expected)	0 - 40 points
Strategy (Attractiveness of Opportunity / Portfolio Fit)	0 - 20 points
Terms (Fees, Liquidity, etc.)	0 - 20 points
Total	100†

*PPPST – People, Process, Performance, Strategy, Terms

†Selected managers standardized to a score of 100 to allow comparability among selected managers.

Manager Search Process



Final Selected Manager Scoring Matrix

Final Due Diligence Scoring Matrix - Aggregated Results*			
Recommended Manager/Fund	Manager Score†	Comparable Mgr. 1 Score	Comparable Mgr. 2 Score
Kildare European Partners II, L.P. (Kildare)	100	90	75

*Scoring matrices utilize difference calibrations depending on the strategy being utilized.

†Selected managers standardized to a score of 100 to allow comparability among selected managers.

III. Portfolio Construction



Manager Selection Portfolio Considerations

Strategy Diversification

TMRS is approaching strategy diversification with a conservative mindset in order to ensure ongoing compliance with the IPS in a variety of plausible outcomes.



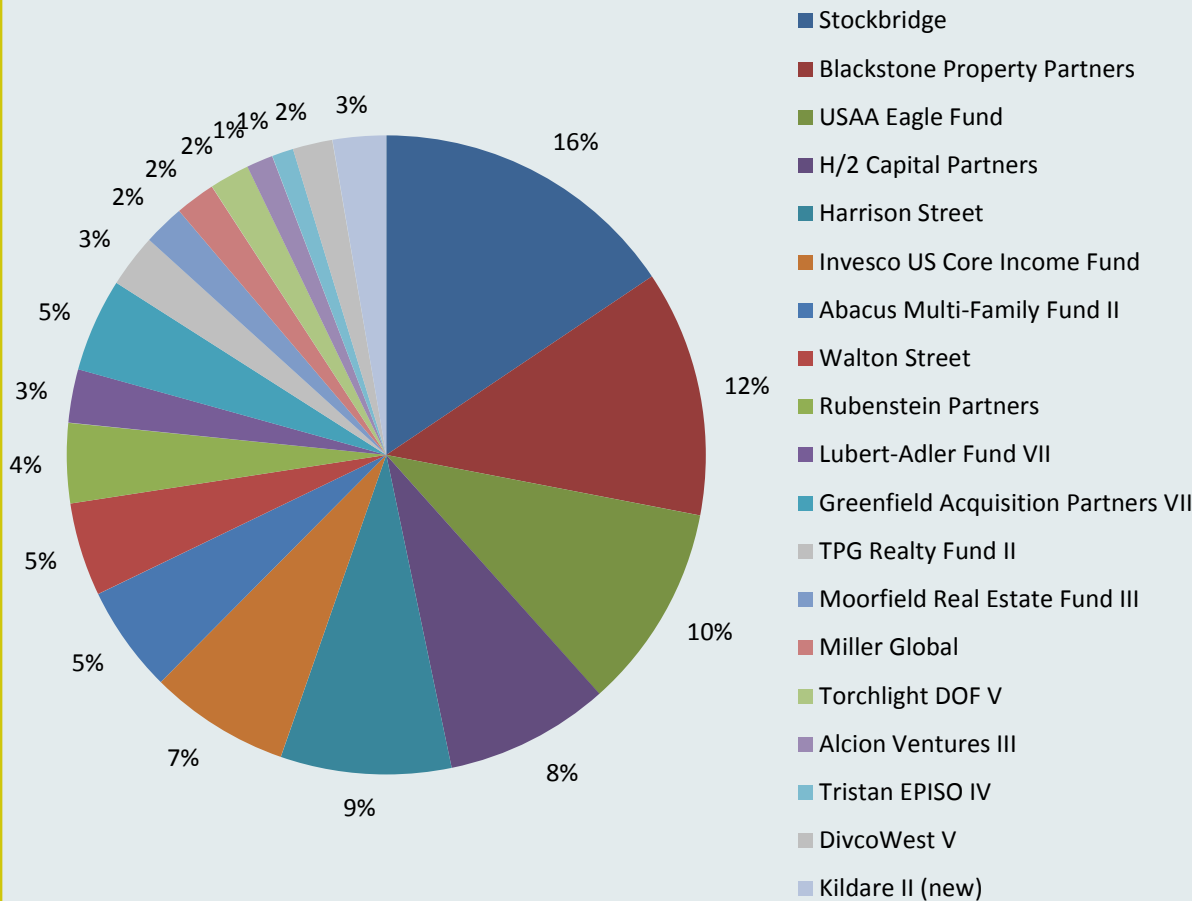
Over time, the core portion of the portfolio will come to equilibrium around 60%, the IPS mandates a minimum of 50% core.

Manager Selection Portfolio Considerations

Manager Implementation

Manager Diversification

(Post-Recommendation by Adjusted Commitments)



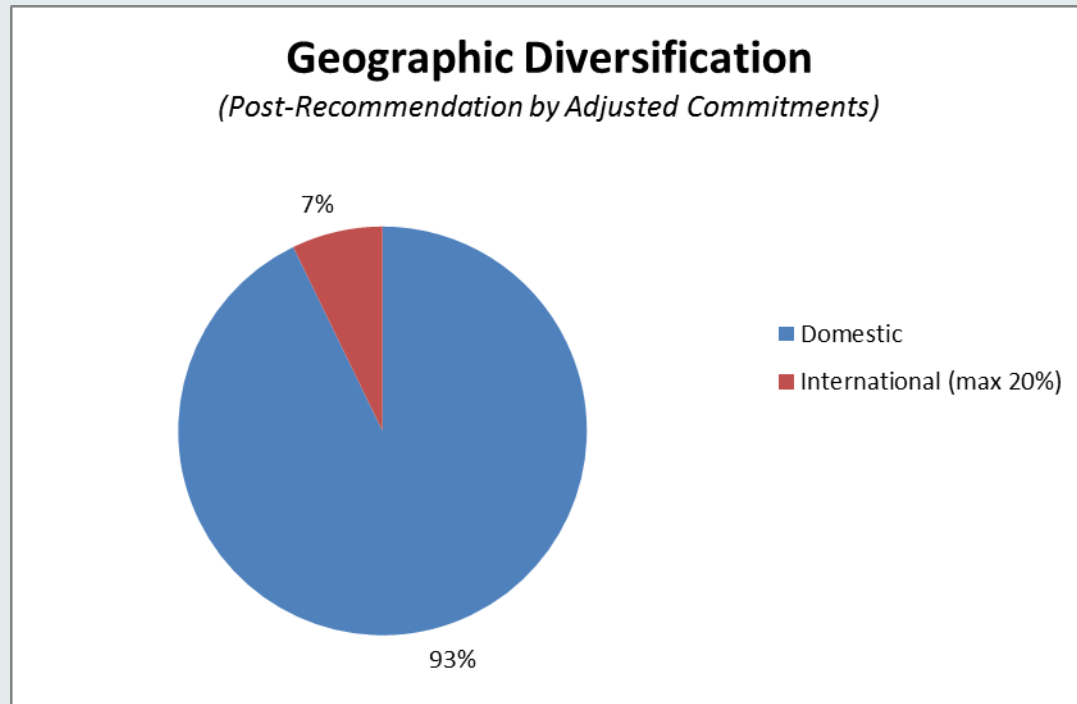
Seeking top performing managers to form beneficial partnerships for the TMRS real estate portfolio.

The number of partnerships is being watched closely by TMRS and Courtland so monitoring and maintenance does not become an undue cost.

Sizing of manager relationships remains critical, based upon portfolio needs, manager capabilities & opportunity set.

Manager Selection Portfolio Considerations

Geographic Diversification



Geographic diversification lowers volatility in the portfolio by providing exposure to geographies and economies that are in different stages of their economic cycle.

A mindful mix within the portfolio will provide diversity of cash flows and a wider opportunity set to incrementally increase attainable alpha.

IV. Manager Selection & Recommendation



Executive Summary of Manager Recommendation

Summary of Recommendation			
Recommended Manager/Fund	Strategy Classification	Target Return	Recommended Amount
Kildare European Partners II, L.P.	Opportunistic	14% plus net	\$100 million
Total Net Recommendations:			\$100 million

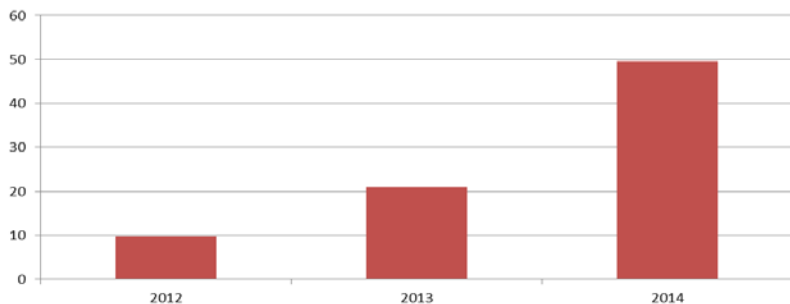
Top Candidate Characteristics – Kildare

\$100 million Recommendation

Scoring Matrix

Category	Kildare	Mgr. A	Mgr. B
People	25	20	15
Process	20	20	20
Performance	20	20	15
Strategy	20	15	15
Terms	15	15	10
Total Points	100	90	75

European Loan Portfolio Sales (€ Billion)



*Pramerica

Reasons to Invest

- Experience & expertise including in house special servicer
- Large market opportunity - \$2+ trillion non core European commercial real estate on bank balance sheets
- Broad based high quality Western European exposure

Issues to Watch

- Only Fund II and Key man – team has long history & fund I doing well
- Use of Leverage – currently using reasonable level
- Assets in foreign currency – currency risk is hedged

Kildare Holdings organized its first fund in 2013 with capital commitments of approximately \$1.9 billion under the direction of Mr. Ellis Short the former CEO and head of Asian operations for Lone Star. Kildare will execute the same strategy investing in real estate and real estate-related assets in Europe with a primary focus in Germany, the Netherlands, the UK and Italy. The principal strategy is to access commercial real estate debt and equity investments through distressed assets. Kildare looks at performing, sub-performing and non-performing loans secured directly or indirectly by commercial real estate assets which they can buy at a discount and work out of distress.

V. Requested Board Action



Recommendation

- TMRS Staff and Courtland Partners recommend that the Board of Trustees approve the selection of the following fund as referenced in the Board Communication Memo for investment in the specified fund below:
 - Kildare European Partners II, L.P. \$100 million